

## TEACHERS' RETIREMENT BOARD

### INVESTMENT COMMITTEE

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SUBJECT: Alternative Investment-  
Performance Benchmark

ITEM NUMBER: 5

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: February 3, 1999

INFORMATION: \_\_\_\_\_

PRESENTER(S): Mr. Clerc  
Mr. Desrochers

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### EXECUTIVE SUMMARY

In the May 1997 asset allocation review, the California State Teachers' Retirement System (STRS) adopted a 5% allocation to the Alternative Investment category with a performance benchmark of the consumer price index (CPI) plus 12%. In June 1998 the STRS Investment Committee determined the primary purpose of alternative investments was to achieve a net total return greater than the public market benchmark (Russell 3000 Index). One of the 1998/99 investment objectives was for staff to review the performance benchmark considering relative and absolute measurements and to present a recommendation to the Investment Committee regarding the appropriate performance benchmark(s) to be used in the evaluation of the alternative investment program.

Staff and Pathway Capital Management have done an extensive review on a variety of aspects relating to relevant performance benchmarks. This review is timely, considering another asset allocation review is anticipated during 1999. The main issues relating to performance benchmarking have been summarized in Attachment 1.

The characteristic and quality tests are the principal aspects to take into consideration prior to the selection of a benchmark. Characteristics of a performance benchmark should be: (1) Unambiguous, (2) Easily measurable (frequently), (3) Reflective of current investment options, (4) Independently constructed, and (5) Specified in advance. The quality considerations are: (1) Relative risk exposure and (2) High market return correlation.

### Findings

- STRS has significant commitments to alternative investments (\$4.6 billion as of November 1998).
- STRS uses a performance benchmark of CPI plus 12%.

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- There are a wide variety of performance benchmarks used by plan sponsors.
- Many plan sponsors are new to alternative investments and have no clearly defined performance objectives.

### **Recommendation**

After review and analysis of academic research, Pathway Capital Management's report, and peer group comparisons, staff recommends Investment Committee approval of the following performance benchmark by adopting the attached Resolution (Attachment 2):

Dollar weighted return for the Russell 3000 Index plus 5% - adjusted for the latest three years contributions at the 3-month T-bill return.

Note: Attachment 1 is not available in electronic format at this time.

RESOLUTION OF THE  
TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Alternative Investment Benchmark

Resolution No. \_\_\_\_\_

WHEREAS, the Board is responsible for managing the Teachers' Retirement Fund (Fund), a Pension Fund; and

WHEREAS, the Investment Committee of the Teachers' Retirement Board has directed Staff and the Alternative Investment Consultant to analyze and propose an appropriate performance benchmark for the Alternative Investment Portfolio; and

WHEREAS, the Committee has reviewed the written material and heard oral presentations from Staff and the Alternative Investment Consultant; Therefore be it

RESOLVED, that the Investment Committee of the Teachers' Retirement Board hereby approves the following Alternative Investment performance benchmark:

Dollar weighted return for the Russell 3000 Index plus 5% - adjusted for  
the latest three years contributions at the 3-month T-bill return.

Adopted by:  
Investment Committee  
on \_\_\_\_\_

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James D. Mosman  
Chief Executive Officer